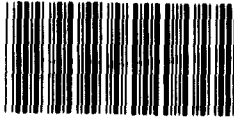


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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548



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STATEMENT OF

CHARLES A. BOWSHER
COMPTROLLER GENERAL OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON INVESTIGATIONS
OF THE
HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE

ON

THE TASK FORCE REPORT ON PERSONNEL MANAGEMENT
BY THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL

Mr. Chairman and Members of the Subcommittee:

I appreciate this opportunity to comment on the draft report on Federal personnel management prepared by a task force of the President's Private Sector Survey on Cost Control. As you know volunteer private sector executives and managers have been studying ways that the Government can improve management, increase efficiency, and reduce costs. The Task Force on Personnel Management is one of the Survey's 36 task forces studying various Government functions and agencies.

I fully endorse having experts from the private sector periodically review the operations of the Federal Government and recommend ways to accomplish efficiencies and effectiveness. My staff met frequently with members of the Task Force on Personnel Management during the course of their work and provided them

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with many of our past reports which contain numerous recommendations for improving personnel management.

The draft report on personnel management contains 91 recommendations. According to the report, these changes could save the Government \$49 billion in 3 years. We have reviewed the task force's recommendations and estimates. While some of the recommendations are similar to those we have made, we are concerned about the bases for the savings estimates and the recommendations calling for major cuts in Federal employee benefit programs.

Since the draft report was issued, we attempted to meet with Survey officials on several occasions to discuss these concerns. We were told that the staff was unavailable because they were busy reviewing their data and preparing for this hearing. Recognizing that the final report may be changed, let me highlight some items in the draft that cause us concern.

In the retirement area the task force reported that private employers spend 14 percent of pay on retirement benefits while the Federal Government spends 29 percent. The task force report says that about \$16 billion could be saved in 3 years if the 15-percent differential were cut in half and proposes a number of benefit reductions.

The task force report gave no support for the 14-percent cost in the private sector except to indicate it is composed of 6 percent for social security and 8 percent for private pensions. In 1979 the Office of Personnel Management estimated that private employers were spending at least 17 percent on

retirement, and, while this figure is somewhat higher, it also may be understated. In March 1983, the Congressional Budget Office, using OPM data, estimated that private employers' retirement costs were 22.8 percent of payroll.

The report used a 1977 actuarial valuation for the 29 percent Government cost. A later actuarial valuation by the Hay Associates, for a December 1981 Congressional Research Service report, found the Government's retirement cost to be 24.2 percent of payroll--quite close to the Congressional Budget Office estimate of 22.8 percent for the private sector. We believe one reason the task force report's figure is so high is that it did not take into account benefit reductions that have occurred since 1977 such as cutbacks in retiree cost-of-living adjustments, and denial of more disability retirement applications by OPM. Elsewhere, the report estimates that OPM's actions had reduced the cost of disability retirements from 5.1 percent of payroll to 2.5 or 3 percent; yet the task force used 5.1 percent in arriving at the Government's cost.

Moreover, these comparisons do not take into account the differing tax treatment of social security and civil service retirement benefits. OPM estimates the amount that the Government gets back in taxes from Federal retirees to be equivalent to 2 percent of payroll. This estimate was made before the recent social security amendments which made up to one-half of social security benefits taxable for persons with

substantial other income beginning in 1984. This change will make the 2-percent factor a bit smaller.

The task force report says that the Federal retirement system "strongly encourages Federal employees to aggressively pursue early retirement." This is a commonly held perception that is not supported by actual experience.

In 1982 about 60,000 employees took optional retirement. Their average age was 61. Another 251,000, about 10 percent of the workforce, were eligible to retire at the end of the year, but continued to work. Most were over 60 years old. (During the past 10 years the average age of optional retirees was 61.1, and in none of those years was the average less than 60.7.)

We are unaware of any comprehensive data on retirement ages under private sector employer plans. However, we did note that the actuarial consulting firm of Johnson and Higgins surveyed 150 large companies in 1979 and found that, in the 72 companies that responded, the average retirement age was 61.8. Based on this limited information, the average retirement ages of employees under private plans and in the Federal system seem to be quite similar.

In making its assertion about early retirement, the report said that in 1980, 65 percent of eligible employees at the pay ceiling retired as compared to 20 percent in 1979. We believe this increase can be attributed to the fact that Federal executives were denied pay increases for several years while retirees were receiving full cost of living adjustments. Thus,

it made economic sense for most senior Federal executives to retire.

In the area of Federal pay setting, the report recommends several changes, which it estimates could reduce the annual General Schedule comparability increase by 4 or 5 percent, and save \$3.5 billion over the next 3 years. The report presented this amount as an "educated guess". We have made some of the same recommendations in the past--for example including State and local governments in the pay surveys, and locality pay for certain employees. We agree that the changes would improve the comparability process, but do not agree that they would result in immediate savings.

A comparability increase, even with the task force's recommended changes, would cost several billion dollars because alternate pay plans giving less than comparability for several years have left Federal pay well behind the private sector.

Presidents have attempted to reduce or delay the annual pay adjustment in 10 of the last 12 years and these alternatives have been accepted by the Congress in 8 of the last 10 years. In the last 6 years, private sector pay levels have increased about 58 percent, while Federal white-collar employees have received pay raises amounting to about 44 percent. An increase of around 20 percent could be required to restore full comparability this year. Even if the task force is correct that its proposals would save 4 to 5 percent, a raise of about 15 percent could still be required to provide comparability.

The same situation applies to the task force recommendations to change the Federal Wage System covering blue-collar employees. The task force estimates that the changes, most of which we recommended several years ago, would reduce comparability increases by 6 to 8 percent, and save \$1.7 billion in 3 years. Again, for several years Congress has limited actual pay increases in the Federal Wage System to the increases granted in the General Schedule. Because of these restraints on blue-collar pay, the task force recommendations will not produce immediate savings.

In the area of health benefits, the report maintains that the Federal program is 1 percent more expensive than private sector programs. Therefore, the report recommends 19 changes to make the Federal health benefits program similar to private sector plans. These recommendations address such matters as improving program management, encouraging cost containment measures through strengthened auditing and peer review, and other operational changes which should provide the program with some much needed stability. While we generally support many of these recommendations, we do not believe that they will save \$1.36 billion over 3 years as the report asserts because they do not address fundamental health care cost reimbursement issues. I might add that the report offers no support for the assertion that these recommendations will result in savings.

Moreover, in making its calculation of the 1 percent difference between the Federal and private sectors, the task force compared the cost for health insurance incurred by the

private sector--most of which is fully funded by employer contributions-- with the total Federal program cost, which includes the contributions of Federal employees. If employee contributions are not included in the comparison the Government's costs as a percent of payroll would probably be less than in the private sector.

Also, several independent studies have shown that the Federal employees' health insurance program lags behind those of large private sector firms. In our opinion, this condition does not support the notion that Federal health insurance costs should be cut by 1 percent of payroll.

There are other conclusions and recommendations on employee benefits which we could discuss. However, I think it is more important to talk about the implications of the task force recommendations and similar recent proposals to substantially reduce Federal retirement benefits. As you know, the General Accounting Office has made many recommendations to improve the administration of employee pay and benefits. Some of these changes have reduced or restrained Federal employees' compensation. We have not made our recommendations solely on the basis of budget savings, although of course that is an important factor. We believe that our proposals for change have always been made carefully, after considering what changes have been made in the past, what was appropriate at the time, and the possible effect on the workforce.

Changes in Federal pay and benefit provisions have saved over \$17 billion since 1977. I am sure it is possible to fur-

ther reduce employee compensation costs. However, an important consideration which must be kept in mind is the effect on employees and whether the Federal Government will be able to continue to attract and retain the quality of employees that it requires. For example, we agree with the task force's conclusion that Federal executive pay rates are too low. But we are not convinced that there are significant differences in overall benefits between the Federal and the private sector. A comparison of benefits by the Congressional Budget Office in March 1983 showed Federal employees to be ahead by only 2 percent. A comparison by Hay Associates made about the same time showed the Federal advantage to be less than 1 percent. There are certainly differences in the various elements of compensation, and the General Accounting Office is on record with several changes that we think are needed. However, I would characterize these as "fine-tuning" adjustments, and recommend that more careful work be done if fundamental changes like the ones proposed by the task force are considered.

I mentioned that we agree with some of the task force recommendations. On the issue of contracting out Government activities, we agree with the task force report that there should be legislation establishing a policy on acquiring certain goods and services from the private sector; that there be authority for the Office of Management and Budget to approve exceptions to this policy when necessary and adequately justified; and that the cost comparison procedures for determining when to contract out be simplified.

We also agree with task force recommendations aimed at improving productivity in the Federal Government. Specifically, additional efforts are needed by the Office of Management and Budget and the Office of Personnel Management to promote and coordinate productivity programs; incentive awards should be used more to recognize productivity improvement; and institutional disincentives for improving productivity should be eliminated.

We agree with the task force report that workforce planning--that is, a systematic way of determining workforce size and composition--needs more emphasis throughout the Federal Government. We have recommended, as does the task force, that specific workforce planning policies and procedures be developed, and that after testing at selected agencies, they be used Government-wide.

The task force estimated savings from additional contracting out at \$1 billion annually and from increased productivity at over \$3 billion annually. They did not attempt to estimate savings from improved workforce management. The report says that these estimates are admittedly very rough, and actual savings would depend on how well these programs were implemented. We have little basis for judging the accuracy of the amounts, but do believe the savings could be significant.

That concludes my prepared statement Mr. Chairman. We would be glad to answer any questions you may have.